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ABSTRACT

This report presents the results of the fourth annual survey of programs linking state budgeting to public college and university performance. A telephone survey conducted with all 50 state higher education finance officers examined the status, prospects, and impact of performance funding and performance budgeting in their state. Respondents were asked: whether legislation mandated performance funding, performance budgeting, and performance reporting, and prescribed the performance indicators; to identify primary initiators of the programs; and to assess effects of performance budgeting, performance funding, and performance reporting on improving campus performance. Results highlight the increasing popularity and continuing volatility of performance funding and performance budgeting, with 37 states now having at least one of the two programs. This year's survey notes a rapid growth in performance budgeting and slight increase in performance funding. Performance funding is becoming more flexible, collaborative, and diverse, while performance budgeting offers ways to clarify the link between funding and performance. A new development is a mixed model that borrows elements from both programs. While nearly half of the respondents said it was too early to evaluate the effect of performance funding on institutional improvement, 35 percent claimed the program improved performance to a significant extent. The survey is appended. (SM)

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Joseph C. Burke, Jeff Rosen, Henrik Minassians, and Terri Lessard
Higher Education Program

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Performance Funding and Budgeting: An Emerging Merger? The Fourth Annual Survey (2000)

Joseph C. Burke, Jeff Rosen, Henrik Minassians, and Terri Lessard

§ Introduction

The Fourth Annual Survey of programs linking state budgeting to the performance of public colleges and universities — like previous surveys — shows increasing popularity and continuing volatility. This year's responses reveal a rapid growth of performance budgeting and a slight increase in performance funding. Both programs continue to exhibit some volatility. The new development is striking: the possibility of a mixed model that borrows elements from both programs.

Previous surveys (Burke & Modarresi, 1999; Burke & Serban, 1997, 1998a) differentiated performance funding and performance budgeting based on the critical connection between funding and performance. In performance funding, the tie of resources to results is direct, automatic, and formulaic. In performance budgeting, the link in is loose, discretionary, and uncertain. The advantage of each approach is also its disadvantage. The tie in performance funding is certain but inflexible, while the link in performance budgeting is flexible but uncertain. This year, several innovations blur the boundaries between performance funding and performance budgeting. They borrow elements from both approaches to achieve the advantages and avoid the disadvantages of each program.

The growing popularity of linking state budgeting to the performance of public campuses is unmistakable. Thirty-seven states (74%) now have at least one of the two programs — an increase of seven over 1999. States with performance budgeting jumped by 5 to 28 (56%). Those with performance funding added only one, for a total of 17 (34%). Ten states have both programs, up from the nine reported last year. Three years ago, when these surveys began, less than half of the states had one of these programs. Now, nearly three-quarters somehow link state resources to campus results.

These increases cloak continued volatility in both programs. Performance budgeting gained seven new programs but lost two of those listed last year. Performance funding added two initiatives, although one that started in 1999 stalled in the state legislature. The volatility of each program has different causes. The loose link between performance and budgeting makes performance budgeting difficult to identify. Three new respondents this year now say their states should not have been listed last year as having the program, while two others claim that their states should have been included. These shifts come from perceptual rather than policy changes.

On the other hand, the loss of one program in performance funding represents a real reversal, since the legislature failed to implement an effort endorsed by the governor and the coordinating agency in Virginia. For example, four of the five programs in performance funding listed as

dropped between 1997 and 2000 represent real losses rather than cases of mistaken identification. The volatility of performance funding confirms the previous conclusion that its desirability in theory is matched by its difficulty in practice. It is easier to adopt than to implement and easier to start than to sustain.

The popularity of both programs does not suggest that performance is replacing traditional considerations in state budgeting for public colleges and universities. Current costs, student enrollments, and inflationary increases will continue to dominate such funding. The loose link between performance and budgeting in performance budgeting, and the relatively small sums provided in performance funding, mean that both programs have only a marginal impact on campus budgets. However, the increased use of performance budgeting and funding does indicate the growing belief in state capitals – but not on public campuses – that performance should somehow count in state budgeting for public higher education.

§ The Surveys

Staff members of the Higher Education Program at the Rockefeller Institute of Government have conducted telephone surveys of State Higher Education Finance Officers (SHEFOs] or their designees for the last four years. This year's survey occurred from June 6 to July 6, and again obtained replies from all 50 states. The instrument includes 33 questions that focus mostly on the status, prospects, and impact of performance funding and budgeting in the states.

The interviews begin with definitions that distinguish the two programs. The questioner asks whether a state currently has performance funding and performance budgeting. If it has one or both of these programs, the interviewer asks the finance officer to predict whether the program or programs will continue in the next five years. If no program exists, the question changes to the likelihood of adopting either practice. "Highly likely," "likely," "unlikely," "highly unlikely," and "cannot predict" constitute the choices for all of these questions. The questioner also inquires whether a state has performance budgeting for some or all of its agencies, and whether it has periodic reports on the performance of public colleges and universities.

The SHEFOs or their designees also note whether legislation mandates performance funding, performance budgeting, and performance reporting and prescribes their performance indicators. In addition, respondents identify the primary initiator of these programs, choosing from governor, legislature, coordinating or governing board, university or college systems or "other." The 1998 survey began a series of questions designed to clarify the relationship between performance budgeting and the budgeting process in the executive and legislative branches. The 1999 version added two new questions to identify the link in that program between state funding and campus performance. This year's survey asks respondents to assess the effect of performance budgeting, performance funding, and performance reporting on improving campus performance. (See Appendix for the 2000 Survey.)

§ Performance Budgeting and Performance Funding

Performance funding and budgeting add institutional performance to the traditional considerations of current costs, student enrollments, and inflationary increases. The latter represent input factors that ignore outputs and outcomes, such as the quantity and quality of graduates and the range and benefits of services to states and society. States previously front-ended funding to encourage desired campus activities. Performance funding and budgeting depart from these earlier

efforts by allocating resources for achieved rather than promised results. This practice shifts somewhat the budget question from what states should do for their campuses toward what campuses do for their states and their students. In reality, the shifts are small in most states, since both performance budgeting and funding represent marginal additions rather than replacements of the traditional considerations of costs, enrollments, and inflation. These shifts do suggest that government policymakers increasingly view higher education as too important to states and their citizens — in a knowledge and information era — to fund only resource inputs and ignore campus results.

The authors of several earlier surveys do not clearly distinguish performance funding from performance budgeting (Christal, 1998; McKeown, 1996). Lack of clear definitions has led policymakers to confuse these two concepts. Alabama offers a recent example of this confusion. Although the coordinating board calls its new program "performance funding," the SHEFO, after hearing the definitions used in this survey, considers it performance budgeting (Alabama Commission on Higher Education, 2000). Although earlier surveys identify a generic direction in budgeting, they fail to clarify how state governments, coordinating boards, or college and university systems actually use campus achievements on performance indicators in the budgeting process. Is the link between resources and results loose or tight? Does campus performance have a direct impact or only an indirect influence on state allocations? And are the funding decisions based on performance automatic or discretionary?

Our annual surveys distinguish performance funding from performance budgeting by using the following definitions:

- **Performance funding** ties specified state funding directly and tightly to the performance of public campuses on individual indicators.
- **Performance budgeting** allows governors, legislators, and coordinating or system boards to consider campus achievement on performance indicators as *one factor* in determining campus allocations.

In performance funding, the relationship between funding and performance is tight, automatic and formulaic. If a campus achieves a prescribed target or an improvement level on defined indicators, it receives a designated amount or percent of state funding. In performance budgeting, the possibility of additional funding due to good or improved performance depends solely on the judgment and discretion of state, coordinating, or system officials. Performance funding ties state funding directly and tightly to performance, while performance budgeting links state budgets indirectly and loosely to results.

Performance budgeting offers political advantages to policymakers that may explain its increasing popularity in state capitals. Performance funding achieves fiscal consequences at the cost of campus controversies. State legislators may champion, in theory, altering campus budgets based on institutional performance, but they often oppose, in practice, programs that may result in budget losses to colleges or universities in their home districts. Performance budgeting offers a political resolution of this troublesome dilemma. Policymakers can gain credit for considering performance in budgeting without provoking controversy by altering campus allocations. This program also retains a prized possession of legislators – control and discretion over state budgets.

Two years ago, our survey report suggested that many more states might adopt both performance budgeting and funding to achieve the advantages and avoid the disadvantages of each approach (Burke & Serban, 1998b). Contrary to this prediction, the results in 2000 indicate that the number of states with both programs increased only from nine to ten. Instead, some of the new initiatives in both programs are borrowing elements from the other approach to gain its benefits while evading their own problems. They seek to make performance budgeting more certain and

performance funding more flexible. More plans are reducing the uncertainty of performance budgeting by earmarking a percentage or amount of state funding for performance, and by having coordinating or governing boards consider performance results in allocation decisions. Conversely, several efforts in performance funding now evaluate campus results over a period of years and allow campuses to choose some indicators related to their strategic plans, in an effort to make the program more flexible.

Despite these attempts to make performance budgeting more certain, its existence often remains difficult to determine, especially in states where the program is adopted by coordinating or system boards and not mandated by legislation. To clarify the ambiguity, the 1998 Survey added six questions to identify the involvement of performance budgeting in the budgeting process. These questions probe the use of performance reports in budget preparation by the governor and legislature, in the executive budget, in the appropriations act and related budget documents, and in campus allocations by coordinating or system boards. Another question asks finance officers to assess the actual effect of performance budgeting on the funding of public colleges and universities. They can choose "great," "considerable," "little," "no," or "cannot determine" the effect. The 1999 Survey also asked if performance budgeting programs earmark a dollar figure or percent of state support for allocation to colleges and universities (Burke & Modarresi, 1999).

§ Performance Budgeting

The use of performance budgeting has increased dramatically from 1997 to 2000 (Table 1). States with the program climbed from 32 to 56 percent – a 75 percent increase in just three years. The 2000 Survey shows the greatest annual increase. It adds eight programs to those listed last year: Alabama, California, Maryland, Mississippi, Missouri, Nevada, Utah, and Wisconsin. Respondents from Maryland, Mississippi, and Missouri say their states should have appeared in earlier surveys. SHEFOs in Indiana, Washington, and West Virginia claim that their states should not have been identified as having performance budgeting. Clearly, the vagueness of performance budgeting explains most of its volatility.

New initiatives in performance budgeting often address the uncertain connection between performance and funding. The newer programs in Alabama and California join Oklahoma and Oregon in earmarking funds for performance. This change not only reduces uncertainty; it removes one of the major differences from performance funding. In addition, coordinating or system boards in Maryland, Missouri, Utah, and Wisconsin consider campus performance in institutional allocations. Only Nevada, among the new programs, takes neither of these approaches to clarify the connection between performance and funding. Overall, coordinating or system boards in nearly 40 percent of states with performance budgeting now consider performance in institutional allocations.

Despite these recent efforts to connect state funding and campus results, the 2000 Survey suggests that most states use performance budgeting for budget preparation and presentation, and not for allocation. Submission of performance reports as part of the executive budget process occurs in over three-quarters of the states with performance budgeting, and discussion of those reports between campus and executive officials happens in over two-thirds of those programs. Legislative committees also receive such reports and discuss them at legislative budgeting hearings in nearly two-thirds of the states. The visibility of performance diminishes at the budget presentation stage. Only slightly more than half of the executive budgets refer to the performance indicators, and just above a quarter of the budget bills or related documents report on the performance of public colleges and universities. A legislative staff member, commenting on Florida's Performance Based Program Budgeting for all state agencies, quipped that the only

obvious connection between funding and performance was that the indicators and the allocations often appeared on the same page in the budget bill.

Table 1. States with Performance Budgeting, 1997 - 2000

Survey	Number (Percentage)	State
First 1997	16 states (32%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Mississippi, Nebraska, North Carolina, Oklahoma, Rhode Island, Texas, West Virginia
Second 1998	21 states (42%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Mississippi, Nebraska, North Carolina, Oklahoma, Oregon, Rhode Island, South Dakota, Texas, Washington, West Virginia
Third 1999	23 states (46%)	Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Massachusetts, Michigan, Nebraska, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Virginia, Washington, West Virginia
Fourth 2000	28 states (56%)	Alabama, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Utah, Virginia, Wisconsin

The SHEFO responses indicate that performance budgeting has only a limited effect on institutional funding. Only one respondent called the effect "great," and just five "considerable." In contrast, 15 claimed "little" and four "no" effect. Three could not assess the effect. As noted earlier, this perception of only a slight effect on actual funding may well explain the popularity of performance budgeting, and its preference over performance funding.

The growing movement to mandate performance budgeting for all or some state agencies has probably spurred its increase in higher education. SHEFOs in 22 states say they have such programs. Over three-quarters of states with performance budgeting for higher education also have such programs for some or all of their agencies. Six of the eight new programs for higher education are in states with performance budgeting for state agencies.

Given the parallel with performance budgeting for state agencies, one would expect that the newer programs for higher education would stem from legislative mandates (Table 2). Surprisingly, the reverse is true. The responses this year show a continued shift from legislative mandates and prescribed indicators in performance budgeting. Of the eight states added this year, legislation mandates the program and prescribes the indicators only in Alabama. In Nevada, the executive budget office imposed the program and prescribed the indicators. Overall, more than half of the current programs started without legislative mandates. Only Texas prescribes the indicators by legislation, although the budget office does this in Nevada. Governors primarily initiated the programs in Alabama and Nevada, but coordinating or system boards played an important role in all the other states with new initiatives. The growth of performance budgeting for state agencies probably encouraged its expansion in higher education. Apparently, coordinating and system boards reacted to this trend by adopting their own plans to avoid state mandates.

Table 2. Characteristics of Performance Budgeting				
State	**Adoption Year**	**Mandated**	**Indicators**	**Initiation**
Alabama	2000	Yes	Yes	Governor
California	2000	No	No	Governor, Coordinating Board
Connecticut	1999	Yes	No	Governor, University System
Florida	1994	Yes	No	Governor, Legislature
Georgia	1993	Yes	No	Governor
Hawaii	1975	Yes	No	Governor, Legislature
Idaho	1996	Yes	No	Legislature
Illinois	1984	No	No	Coordinating Board, University System
Iowa	1996	Yes	No	Governor
Kansas	1995	No	No	Coordinating Board
Louisiana	1997	Yes	No	Legislature
Maine	1998	Yes	No	Governor
Maryland	2000	No	No	Governor
Massachusetts	1999	No	No	Legislature, Coordinating Board
Michigan	1999	No	No	Governor
Mississippi	1992	Yes	No	Legislature
Missouri	1999	No	No	Governor, Coordinating Board
Nebraska	1991	No	No	Coordinating Board
Nevada	2000	No	Yes	Governor
New Jersey	1999	No	No	Governor
New Mexico	1999	Yes	No	Legislature
North Carolina	1996	Yes	No	Governor
Oklahoma	1991	No	No	Coordinating Board
Oregon	1998	No	No	Coordinating Board
Texas	1991	Yes	Yes	Legislature
Utah	2000	No	No	Legislature, Coordinating Board
Virginia	1999	No	No	Governor
Wisconsin	2000	No	No	Coordinating Board

Performance budgeting appears stable in the states where it exists, but its growth to over half of the states may limit future expansion (Tables 3 and 4). SHEFOs see nearly two-thirds of the current programs as highly likely and just under a third as likely to continue. Only the respondent from Georgia could not predict its future. However, only three states are considered highly likely and one likely to adopt the program in the next five years. Six are viewed as unlikely and two highly unlikely to institute a program. Respondents in 11 states could not predict future action. It seems significant that not one of those unpredictable states has performance budgeting for state agencies. Last year, 14 SHEFOs saw their states as highly likely, six saw them as likely, and none as highly unlikely or unlikely to adopt performance budgeting. Only three states fell into the category of cannot predict (Burke & Modarresi, 1999). These statistics suggest that the rapid expansion of performance budgeting that has occurred in recent years may well slow in the future.

*Table 3. Likelihood of Continuing Performance Budgeting**

Likelihood	Number (Percentage)	State
Highly Likely	17 (61%)	Alabama, Connecticut, Hawaii, Idaho, Kansas, Louisiana, Maine, Maryland, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Oregon, Texas, Virginia, Wisconsin
Likely	10 (36%)	California, Florida, Illinois, Iowa, Massachusetts, Michigan, Nebraska, North Carolina, Oklahoma, Utah
Unlikely	0	
Highly Unlikely	0	
Cannot Predict	1 (4%)	Georgia

* Based on 28 states that currently have performance budgeting.

*Table 4. Likelihood of Adopting Performance Budgeting**

Likelihood	Number (Percentage)	State
Highly Likely	3 (14%)	Alaska, North Dakota, West Virginia
Likely	1 (5%)	Washington
Unlikely	5 (23%)	Delaware, New Hampshire, New York, South Carolina, Wyoming
Highly Unlikely	3 (14%)	Colorado, Kentucky, Rhode Island
Cannot Predict	10 (46%)	Arizona, Arkansas, Indiana, Minnesota, Montana, Ohio, Pennsylvania, South Dakota, Tennessee, Vermont

* Based on 22 states that currently do not have performance budgeting.

§ Performance Funding

The 2000 Survey suggests that the growth of performance funding has already slowed, although its instability has diminished (Table 5). Over the last four years, the program grew by 70 percent, from 10 to 17 programs. Performance funding experienced a net increase of three programs in both 1998 and 1999. It added five and lost two programs in the 1998 Survey, and increased by six and

deleted three in last year's poll. This year shows a net increase of only one program, with new programs in Colorado and Pennsylvania and a stalled initiative in Virginia. Colorado represents the first state that abandoned and then readopted performance funding.

Table 5. States with Performance Funding, 1997 - 2000

Survey	Number (Percentage)	State
First 1997	10 states (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington
Second 1998	13 states (26%)	Colorado, Connecticut, Florida, Illinois, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington
Third 1999	16 states (32%)	California, Connecticut, Florida, Illinois, Kansas, Louisiana, Missouri, New Jersey, New York, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia
Fourth 2000	17 states (34%)	California*, Colorado, Connecticut, Florida, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas

* 2-year colleges only
** State University of New York System only

Existing performance funding programs seem somewhat less secure but new initiatives appear slightly more likely than last year (Tables 6 and 7). SHEFOs say that existing programs are highly likely to continue in 6 and likely to persist in 11 states. Last year, they saw 12 as highly likely and 3 as likely to persist. The choice this year of likely rather than highly likely to continue in so many states with current programs may suggest renewed instability in the future. Two states are considered highly likely and five likely to adopt performance funding in the next five years. Three states seem highly unlikely, and 15 unlikely, to have the program in the next five years. SHEFOs cannot predict the program's future in eight states. The 1999 responses considered no new adoptions as highly likely, nine as likely, but 12 as unlikely, and six as highly unlikely. Seven SHEFOs could not predict the future action on performance funding in their states. Although the attractiveness of performance funding in theory apparently persists in state capitals, campus opposition has alerted state policymakers to its practical problems.

*Table 6. Likelihood of Continuing Performance Funding**

Likelihood	Number (Percentage)	State
Highly Likely	6 (35%)	Kansas, Missouri, Ohio, Pennsylvania, Tennessee, Texas
Likely	11 (65%)	California, Colorado, Connecticut, Florida, Illinois, Louisiana, New Jersey, New York, Oklahoma, South Carolina, South Dakota
Unlikely	0	
Highly Unlikely	0	
Cannot Predict	0	

* Based on 17 states that currently have performance funding.

*Table 7. Likelihood of Adopting Performance Funding**

Likelihood	Number (Percentage)	State
Highly Likely	2 (6%)	Virginia, West Virginia
Likely	5 (15%)	Alabama, Maryland, Massachusetts, New Mexico, Utah
Unlikely	15 (45%)	Delaware, Georgia, Idaho, Indiana, Iowa, Kentucky, Minnesota, Mississippi, Montana, Nebraska, Nevada, Oregon, Rhode Island, Washington, Wyoming
Highly Unlikely	3 (9%)	Alaska, New Hampshire, North Dakota
Cannot Predict	8 (24%)	Arizona, Arkansas, Hawaii, Maine, Michigan, North Carolina, Vermont, Wisconsin

* Based on 33 states that currently do not have performance funding.

If some of the new initiatives in performance budgeting attempt to address its problem of uncertainty, several of those in performance funding try to alleviate its inflexibility. Many of the early efforts at performance funding suffered from rigid mandates that sought radical reform in public higher education. These mandates imposed lengthy lists of statewide indicators that discouraged diversity among campuses and tied annual funding to institutional improvements that take years to attain. The newer programs try to tackle these problems. In the last two years, most new initiatives came from coordinating and system boards rather than from legislative mandates (Table 8). Community college systems in California and Illinois initiated their own programs, as did university systems in New York and Pennsylvania. Legislative prescription of performance indicators – found in several earlier programs – has become rare. This trend diverges sharply from the programs in place in 1997, when legislation mandated 80 percent of the plans and prescribed the indicators in half of these efforts. Today legislation mandates only 47 percent of the programs and prescribes indicators in only 24 percent.

Legislation does mandate the re-adopted program in Colorado. However, unlike the abandoned effort, the new program allowed the coordinating board — in full consultation with the campuses – to develop the indicators. Along with many of the newer programs, Colorado also permits each campus to select two indicators related to its strategic plan. The Louisiana program goes even further, rejecting statewide indicators and relying solely on institutional measures drawn from campus strategic plans. The newer plans also tend to use fewer measures than early performance funding programs. Most of the recent programs also allow lead-time for program development and campus consultation before implementation. This careful approach contrasts with the immediate or hurried implementation of many programs in place in 1997.

Several of the newer initiatives also link performance funding to multi-year plans. The Partnership for Excellence between California and its Community College System spreads campus performance considerations over seven years. The System for Higher Education in Pennsylvania ties funding to institutional performance over four years. Louisiana's program has a five-year timeline, with institutions presenting annual operating plans. The stalled effort in Virginia, which its SHEFO says is highly likely to receive future approval, involves "Institutional Performance Agreements" for six years that link statewide and campus indicators to institutional strategic plans. Several initiatives, similar to the one for community colleges in California, also allow several years of preparation before performance objectives are fully implemented.

Table 8. Characteristics of Performance Funding

State	Adoption Year	Mandated	Indicators	Initiation
California	1998	No	No	Community College System
Colorado	2000	Yes	No	Legislature
Connecticut	1985	Yes	No	Coordinating Board
Florida	1994	Yes	Yes	Governor, Legislature
Illinois	1998	No	No	Coordinating Board, College System
Kansas	2000	Yes	No	Governor, Legislature
Louisiana	1997	No	No	Coordinating Board
Missouri	1991	No	No	Coordinating Board
New Jersey	1999	No	No	Governor, Coordinating Board
New York	1999	No	No	University System
Ohio	1995	Yes	Yes	Coordinating Board
Oklahoma	1997	No	No	Coordinating Board
Pennsylvania	2000	No	No	University System
South Carolina	1996	Yes	Yes	Legislature
South Dakota	1997	No	No	Governor, Legislature, Coordinating Board
Tennessee	1979	No	No	Coordinating Board
Texas	1999	Yes	Yes	Legislature

The initiative launched by the State System for Higher Education in Pennsylvania introduces a unique innovation. It transforms a competitive loan program for priority projects into performance funding by turning loans into grants if campuses achieve set performance goals. This program combines elements of front-end funding to encourage desired campus activities with those of performance funding that rewards achieved rather than promised results. An anomaly of legislative mandate and indicator prescription also appears in Pennsylvania. Its budget allocates funding to both public and private colleges and universities that achieve a 40 percent graduation rate in four years. Although the program includes both sectors, it seems likely that only the home campus of the Pennsylvania State University, in the public sector, can meet this standard. For the first time, this Pennsylvania law extends performance funding to private colleges and universities.

The newer initiatives address a number of the problems of performance funding identified in a study of the characteristics of stable versus unstable programs (Burke & Modarresi, 2000). Stable programs have the following characteristics:

1. Involve important input from state coordinating boards and their officers;
2. Accent both institutional improvement and accountability;
3. Permit sufficient time for planning and implementation;
4. Use a limited number of indicators; and
5. Protect diversity among campuses.

Although the recent changes in performance funding programs will not guarantee their stability, the study of stable and unstable programs suggests that continuation is unlikely without them. Five performance funding efforts have been abandoned since 1996: Arkansas, Colorado, Kentucky, Minnesota, and Washington. Legislation mandated four of those programs and prescribed the indicators in three. Only one allowed campus choice of some indicators, and four required the same measures for two- and four-year campuses. Such provisions provide a prescription for instability in performance funding.

§ Performance Reporting

Performance reporting represents a third method of demonstrating accountability and encouraging improved performance. These periodic reports recount the performance of public colleges and universities on priority indicators, similar to those found in performance funding and budgeting. They are usually sent to governors, legislators, and campus leaders, and often to the media. The reports use publicity rather than funding or budgets to stimulate colleges and universities to improve their performance. Experience with performance reporting is a valuable prerequisite to both performance funding and budgeting. SHEFOs say that 30 states have some form of performance reporting. Seventy percent of the states with performance funding and 68 percent of those with performance budgeting also have performance reporting. Only half of the states with neither program have performance reporting. Two of the five states that dropped performance funding did not have performance reporting.

§ Impact on Campus Performance

The bottom line in assessing both performance funding and budgeting is the extent to which each improves institutional performance. A realistic assessment is still premature, since nearly all of these programs are products of the 1990s, and most have been implemented for only a few years. However, it is not too early to begin a preliminary assessment of their effect on performance.

Not surprisingly, nearly half of the SHEFOs say it is too early to evaluate the effect of performance funding on institutional improvement. But 35 percent claim that the program has improved performance to a "great" or "considerable extent." Finance officers in South Carolina and Tennessee cite "great extent," and those in Connecticut,* Missouri, Ohio, and Oklahoma cite "considerable extent." Respondents indicate "some extent" in South Dakota and "little extent" in Florida and Texas. None of the SHEFOs said "no extent."

Program duration and funding levels clearly affect these estimates. Tennessee, Missouri, South Carolina, and Ohio have had performance funding for some time and have supported them with sizeable sums. Although Florida's effort has existed for five years, its university sector has received scant funding in the last few budgets. Even respondents from states that rate their program's effect

* Connecticut's rating is based on a single indicator for minority enrollment.

on improvement as low say that performance funding has caused campus leaders to concentrate more on institutional performance.

Although performance budgeting has a somewhat longer history, 32 percent of the SHEFOs still considered it too early to assess the program's impact. None cite their program as affecting performance to a "great extent." Respondents believe performance budgeting has improved campus performance to a "considerable extent" in 18 percent of the programs, and to "some extent" in 7 percent. However, finance officers think performance budgeting has had "little effect" in 36 percent of the states, and "no effect" in 29 percent. All of the programs cited as exerting "considerable" or "some effect" on campus performance have coordinating or system boards that consider performance in campus allocations. The effect on improved performance appears to depend on fiscal consequences, which is the rationale for both performance budgeting and performance funding. The loose link between performance and allocation in performance budgeting, as opposed to the tight tie in performance funding, seems to explain why the former appears to have a lesser impact on performance.

The survey shows that it is still too soon to assess the effect of both types of programs, given their short history. It does suggest that performance funding has more effect than performance budgeting, and that the impact of both approaches increases in relation to the clarity and level of fiscal consequences. On the other hand, too much funding can have the detrimental effect of producing budget instability. The early effort in South Carolina to base all funding on performance presents a classic example of this flaw.

A nine-state survey of state and campus leaders in late 1996 and early 1997 by the Rockefeller Institute notes that performance funding tends to become invisible on campuses below the level of vice president because of the failure to extend performance funding to internal allocations on campus (Serban, 1997). The departments and divisions responsible for performance receive no allocations based on their achievement. Preliminary results from our five-state survey of campus policymakers on performance funding in 1999 - 2000 confirm this conclusion. Both surveys suggest that improving campus performance requires budgeting for internal units based partly on their performance on priority objectives.

§ Findings

Performance Funding

The newer initiatives suggest that performance funding is becoming more flexible, collaborative, and diverse. The early programs generally endorsed the centralized concept that one plan can fit all campus types and missions. Such programs often arose from rigid legislative mandates that prescribed long lists of statewide indicators that applied to all campus types and sought comprehensive reforms in public higher education. Recent efforts show a trend away from monolithic plans toward more eclectic programs with more limited objectives linked to institutional strategic plans. The newer programs increasingly incorporated the following characteristics:

1. Fewer mandates by legislation;
2. More initiation by college and university systems;
3. Fewer indicators;
4. More campus selected measures;
5. More limited objectives.
6. Different programs for two- and four-year campuses;
7. Added attention to diverse campus missions and strategic plans;

8. Multi-year assessment of campus performance; and
9. Multi-year funding commitments.

Performance Budgeting

If performance funding shows signs of becoming more flexible, performance budgeting offers ways of clarifying the link between funding and performance. Traditional programs considered performance only for budget development and presentation and ignored it in budget allocation. Now four programs earmark money for performance, and 40 percent allow coordinating or system boards to consider performance in determining campus allocations. As with performance funding, legislative mandates have become rare, and legislatively prescribed indicators have disappeared. If more of these programs earmark funds for performance, the major difference with performance funding would disappear, and performance budgeting would acquire the major benefit of performance funding while avoiding its problem of inflexibility.

Similarities and Differences

In previous reports of the SHEFO surveys, there has been a struggle to define the differences between performance funding and performance budgeting. This year's results reveal that recent developments are beginning to blur the distinction. Both approaches have always shared nearly all of their components. They have the common purpose of relating state budgeting to campus performance. They usually have the common goals of demonstrating accountability, improving performance, and meeting state needs. Each designates performance indicators on priority issues. Along with performance funding, many performance budgeting plans set success standards based on institutional improvement and comparisons with peer institutions. The relationship between performance and resources represents the real difference between the two programs.

This distinction diminishes when coordinating and system boards consider performance in allocations. It disappears when programs earmark state funds for campus results. Only one distinction remains. Performance funding ties specific amounts or percentages to each indicator, while performance budgeting involves collective achievements on all indicators in funding decisions. This collective judgment gives performance budgeting a distinct advantage, for it reduces problems of validity or reliability with individual indicators. Performance funding could close the narrowing gap with performance budgeting programs by allocating funds on all indicators rather than on each measure. In any case, recent innovations in performance budgeting blur or eliminate the main distinction with performance funding.

§ Conclusion

Some conclusions about programs linking state resources to campus results are clear, but others are cloudy. The continued popularity in state capitols of finding some way to relate state resources to campus results is unmistakable. The expansion of legislation for performance-based budgeting for state agencies demonstrates this popularity. If the desirability is undeniable, the method remains debatable for higher education. Performance budgeting is clearly the preferred program. Over half of the states have adopted this approach, versus slightly more than a third that have opted for performance funding. Both programs have exhibited remarkable growth over the past four years. The survey responses suggest that this rate of increase is unlikely to continue in the future. With programs in place in over half of the states, performance budgeting has less room to expand. Continued campus resistance to performance funding could limit its growth.

The future of both programs may well depend on the adoption and effectiveness of the recent innovations. Can the practice of earmarking funds and considering performance in allocations clarify the uncertainty of performance budgeting without creating campus opposition? Can multiyear evaluations, institution-specific indicators, and emphasis on campus missions gain the support for — or at least diminish the resistance to – performance funding among leaders of colleges and universities? Will the borrowing of elements between the programs create a merged model capable of attracting approval from both state capitols and public campuses?

The final test will involve the ability of both programs to improve the performance of public colleges and universities. Institutional improvement is unlikely to occur until campuses consider performance in internal allocations to their departments and divisions, which are largely responsible for producing the desired results.

Whatever the outcome and answers to these questions, recent trends have altered the major difficulty identified in the SHEFO Surveys. After years of struggling to explain the differences between performance funding and budgeting, we must now examine the new phenomenon of their emerging similarities.

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Appendix

SURVEY OF STATE HIGHER EDUCATION FINANCE OFFICERS: PERFORMANCE REPORTING, FUNDING, AND BUDGETING

June 2000

NAME: _____
STATE: _____
PHONE #: _____

Definitions:

PERFORMANCE FUNDING: Ties specified state funding directly and tightly to the performance of public campuses on individual indicators.

PERFORMANCE BUDGETING: Allows governors, legislators, and coordinating or system boards to consider campus achievement on performance indicators as *one factor* in determining public campus allocations.

Section One: Performance Funding

1) Does your state currently have **performance funding** for public colleges and/or universities?

Yes ☐ No ☐

If yes,

2) What is the percent of funding allocated to **performance funding** for public colleges and/or universities in your state?

_____ %

3) Was it mandated by legislation? Yes ☐ No ☐

4) Were the indicators prescribed by legislation? Yes ☐ No ☐

5) Of the following, what individual or group(s) initiated **performance funding**?

Governor ☐
Legislature ☐
Coordinating board or agency ☐
University system(s) ☐
Other (please specify) ☐ _____

6) In your opinion, to what extent has **performance funding** improved the performance of public colleges and/or universities in your state?

Great Extent ☐ Considerable Extent ☐ Little Extent ☐ No Extent ☐

7) How likely is it that your state will continue **performance funding** for public higher education over the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

If no,

8) How likely is it that your state will adopt **performance funding** for public higher education in the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

Section Two: Performance Budgeting

9) Does your state currently have **performance budgeting** for public colleges and/or universities?

Yes ☐ No ☐

If yes,

10) Was it mandated by legislation? Yes ☐ No ☐

11) Were the indicators prescribed by legislation? Yes ☐ No ☐

12) Of the following, what individual or group(s) initiated **performance budgeting**?

Governor ☐
Legislature ☐
Coordinating board or agency ☐
University system(s) ☐
Other (please specify) ☐ _____

13) In your opinion, to what extent has **performance budgeting** improved the performance of public colleges and/or universities in your state?

Great Extent ☐ Considerable Extent ☐ Little Extent ☐ No Extent ☐

14) How likely is it that your state will continue **performance budgeting** for public higher education over the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

If no,

15) How likely is it that your state will adopt **performance budgeting** for public higher education in the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

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16) Is **performance budgeting** used in your state for other state agencies besides higher education?

Yes ☐ No ☐

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17) Does the **performance budgeting** program earmark a certain dollar figure or percent of state support for allocation to colleges and universities?

Yes ☐ No ☐

18) Are reports that use a list of indicators for the performance of public colleges and/or universities normally submitted to the governor's budget office as part of the budget process?

Yes ☐ No ☐

19) Are reports that use a list of indicators for the performance of public colleges and/or universities normally submitted to legislative committee(s) as part of the budget process?

Yes ☐ No ☐

20) Do higher education officials normally discuss the performance of public colleges and universities on the indicators with officials in the executive branch as part of the budget preparation process?

Yes ☐ No ☐

21) Does the governor's budget proposal to the legislature normally refer to higher education performance indicators or performance reports?

Yes ☐ No ☐

22) Are the performance indicators or reports normally discussed in legislative budget hearings?

Yes ☐ No ☐

23) Does the appropriations act or related budget documents normally refer to the performance indicators or performance reports?

Yes ☐ No ☐

24) Do the coordinating and/or system governing boards consider performance reports in the allocation of resources to colleges and universities?

Yes ☐ No ☐

25) How would you describe the actual effect of performance budgeting in your state on the funding of public colleges and universities?

Great Effect ☐ Considerable Effect ☐ Little Effect ☐ No Effect ☐

Section Three: Performance Reporting

26) Does your state currently have **performance reporting** for public colleges and/or universities?

Yes ☐ No ☐

If yes,

27) Was it mandated by legislation? Yes ☐ No ☐

28) Were the indicators prescribed by legislation? Yes ☐ No ☐

29) Of the following, what individual or group(s) initiated **performance reporting**?

Governor ☐
Legislature ☐
Coordinating board or agency ☐
University system(s) ☐
Other (please specify) ☐ _____

30) In your opinion, to what extent has **performance reporting** improved the performance of public colleges and/or universities in your state?

Great Extent ☐ Considerable Extent ☐ Little Extent ☐ No Extent ☐

31) How likely is it that your state will continue **performance reporting** for public higher education over the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

If no,

32) How likely is it that your state will adopt **performance reporting** for public higher education in the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

---

33) In your opinion, how concerned is your agency about the impact in your state of the publication this Fall of the State Report Cards on Higher Education by the National Center for Public Policy and Higher Education?

Very Concerned ☐ Moderately Concerned ☐ Minimally Concerned ☐ Not Concerned ☐

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34) What is your agency doing to prepare for the possible impact of the Report Card to your state?

_____

_____

_____

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